

February 4, 2011

George Beattie  
President  
San Jose Police Officers' Association (SJPOA)  
1151 North Fourth Street  
San Jose, CA 95112

Jeff Welch  
President  
San Jose Fire Fighters, IAFF Local 230 (Local 230)  
425 E. Santa Clara St. #300  
San Jose, CA 95113

**RE: Retiree Healthcare Funding**

Dear George and Jeff:

Thank you for your letter dated January 26, 2011, regarding retiree healthcare prefunding.

As you know, in 2009 the City and employees represented by the SJPOA and all employees in the Federated City Employees' Retirement System began phasing-in to full pre-funding of retiree healthcare benefits. We appreciate the San Jose Fire Fighters' interest in immediately commencing retiree healthcare contributions in a percentage amount equal to that contributed by police officers. This is particularly important given that, based on the 2009 actuarial study, retiree healthcare benefits in the Police and Fire Department Retirement plan are only 6%-7% funded.

The City and employees share 50/50 in the costs of retiree medical benefits. The fact that retiree healthcare benefits were not being funded at the level necessary to cover the liabilities is what led to the agreement with the SJPOA and other bargaining units in 2009. The initial timeframe on the need to create a new trust was based upon information the City had received indicating that the current trust would be soon reaching IRS limits related to how much retiree healthcare contributions could be made. Subsequent to reaching an agreement with the SJPOA and other bargaining units on retiree healthcare funding, we were advised that there was additional time before the IRS limits were reached. Notwithstanding the fact that we may have time before the IRS limits are reached, we would like to establish the trust as soon as possible.

We have been working on the issue of a new trust, and we are willing to schedule a meeting to discuss the matter with both the SJPOA and Local 230. Although we would like to have consensus on the trust, since your letter is proposing "three-party negotiations" over the creation of a trust agreement, we do want to clarify that we do not believe that the trust is a mandatory subject of bargaining. However, we are hopeful that we will be able to reach consensus on the new trust very quickly.

We also would like to discuss with Local 230 reaching an agreement on retiree healthcare funding separate and apart from other pending matters.

Lastly, we appreciate the spirit of collaboration expressed in your letter, and we look forward to meeting with you. Please let us know if you are available to meet on Friday, February 11, 2011, from 11:00 a.m. to 12:00 p.m at the Office of Employee Relations, Council Wing 3<sup>rd</sup> Floor.

Sincerely,

A handwritten signature in black ink, appearing to read 'Alex Gurza', with a stylized, flowing script.

Alex Gurza  
Director of Employee Relations